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In the Supreme Court of the United States

OCTOBER TERM, 1986

QUME CORPORATION, PETITIONER

v.

UNITED STATES INTERNATIONAL TRADE COMMISSION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE INTERNATIONAL TRADE COMMISSION IN OPPOSITION

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QUESTION PRESENTED

Whether the court of appeals applied the correct appellate review standard in affirming a final determination of the United States International Trade Commission.

TABLE OF CONTENTS

	Page
Opinions below	1
Jurisdiction	1
Statement	2
Argument	7
Conclusion	11

TABLE OF AUTHORITIES

Cases:

American Hospital Supply Corp. v. *Travenol Laboratories, Inc.*, 745 F.2d 1 (Fed. Cir. 1984)	8
Consolidated Edison Co. v. *NLRB*, 305 U.S. 197 (1938)	8
Graham v. *John Deere Co.*, 383 U.S. 1 (1966)	9
Dennison Mfg. Co. v. *Panduit Corp.*, No. 85-1150 (Apr. 21, 1986)	10
Jackson v. *Veterans Administration*, 768 F.2d 1325 (Fed. Cir. 1985)	10
SSIH Equipment S.A. v. *United States International Trade Commission*, 718 F.2d 365 (Fed. Cir. 1983)	8, 11
Universal Camera Corp. v. *NLRB*, 340 U.S. 474 (1951)	7, 8

Statutes and regulations:

Administrative Procedure Act, 5 U.S.C (& Supp. III) 551 *et seq.*:	
5 U.S.C. (& Supp. III) 551-559	2
5 U.S.C. 706	8
Tariff Act of 1930:	
§ 337, 19 U.S.C. (& Supp. III) 1337	2, 3-4, 5, 8
§ 337(a), 19 U.S.C. 1337(a)	2
§ 337(c), 19 U.S.C. (Supp. III) 1337(c)	8
§ 337(d), 19 U.S.C. 1337(d)	3
§ 337(f), 19 U.S.C. 1337(f)	3

Statutes and regulations—Continued	Page
35 U.S.C. 102(g)	5, 6
35 U.S.C. (& Supp. III) 103	6
35 U.S.C. (& Supp. III) 282	11
19 C.F.R.:	
Sections 210.30-210.44	2
Section 210.53	2
Sections 210.54-210.55	3
Section 210.56(c)	3
Miscellaneous:	
50 Fed. Reg. (1985):	
p. 15236	5
p. 33862	5

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. A1-A5) and the opinion of the International Trade Commission (Pet. App. A14-A99) are unreported.

JURISDICTION

The judgment of the court of appeals was entered on October 7, 1986. A petition for rehearing was denied on November 5, 1986 (Pet. App. A6) and a suggestion for rehearing in banc was denied on November 18, 1986 (Pet. App. A7). The petition for a writ of certiorari was filed on February 3, 1987. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

Petitioner Qume Corporation contends that the court of appeals applied an incorrect appellate review standard in affirming a final determination of the International Trade Commission that denied petitioner's claim for relief under Section 337 of the Tariff Act of 1930, 19 U.S.C. (& Supp. III) 1337.

1. Section 337 provides a remedy for unfair practices in import trade. It requires a complainant to demonstrate two elements: (1) an "[u]nfair method[] of competition" or "unfair acts" in the importation of articles; and (2) the effect or tendency to destroy or substantially injure an industry, efficiently and economically operated, in the United States. 19 U.S.C. 1337(a).

The Commission institutes Section 337 investigations upon receipt of a proper complaint. In such cases, there are generally three parties—the complainant, the respondent, and a Commission investigative attorney, who represents the public interest in the course of the investigation. Upon institution, the Commission refers the investigation to one of its administrative law judges (ALJs) for an evidentiary hearing.

Section 337 investigations are subject to the Administrative Procedure Act, 5 U.S.C. (& Supp. III) 551-559. They are adversarial and include a period for discovery, a hearing on the record, the right to cross-examination, and the right to compel testimony. 19 C.F.R. 210.30-210.44. At the conclusion of these proceedings, the ALJ issues an initial determination (ID). 19 C.F.R. 210.53. The ID includes findings on the existence of unfair acts or methods of competition in the importation of goods and whether there is an effect or tendency to destroy or substan-

tially injure an efficiently and economically operated domestic industry.[1] If both the unfair act and injury criteria are satisfied, there is a finding of violation of Section 337. The ID does not include a determination of the proper remedy, if any.

Once the ALJ has issued the ID, any party may petition the Commission for review or the Commission may review the ID on its own motion. 19 C.F.R. 210.54-210.55. The review may encompass some or all of the issues in the investigation. The Commission may affirm, reverse, modify, set aside or remand the ID for further proceedings, in whole or in part, and make any findings and conclusions that, in the Commission's view, are proper based upon the record in the investigation. 19 C.F.R. 210.56(c). Upon finding a Section 337 violation, the Commission determines the appropriate remedy, which may be a cease and desist order or a general or limited exclusion order. 19 U.S.C. 1337(d) and (f). If the Commission finds no violation, the investigation terminates.

2. Petitioner filed a complaint with the Commission contending that various foreign companies were violating Section 337 through their importation and sale of certain rotary printing systems. It alleged that the importation and sale constituted unfair acts by reason of infringement of Claims 1 and 8 of petitioner's U.S. Letters Patent 4,118,129 (the '129 patent), and that these acts had the effect or tendency to injure an efficiently and economically op-

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[1] In patent cases, the "unfair act" portion of the ID commonly encompasses the issues of patent validity and infringement.

erated domestic industry within the meaning of Section 337.[2] Petitioner requested that the Commission conduct a full investigation and, thereafter, issue a permanent exclusion order and permanent cease and desist orders.

The Commission referred the matter to an ALJ.[3] He issued an ID finding that respondents violated Section 337 in the importation and sale of certain models of the rotary wheel printing systems under investigation. Specifically, the ALJ determined that the '129 patent was valid and enforceable and that certain of respondents' devices infringed Claims 1 and 8 of the '129 patent. The ALJ further deter-

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[2] The '129 patent, entitled "Rotary Wheel Printing System," was issued to Willy J. Grundherr on October 3, 1978, and assigned to petitioner. The patent describes an electromechanical printing system in which an electronic control positions a rotary print wheel mounted on a translatable carriage and activates a hammer to strike a positioned character. As the carriage/wheel assembly moves from character to character along the line, the print wheel rotates so that the character pad bearing the next character to be printed aligns with the print hammer, also mounted on the carriage. When the carriage stops, the print hammer is activated and strikes the character pad against an inking ribbon to print the character. The improvements embodied in the '129 patent consist of an optical intensity adjustment feature, which utilizes precise position control signals to control the position of the carriage and print wheel, and a hammer intensity control feature, which includes a memory device that stores character selection and hammer intensity information. See Pet. App. A23. Claims 1 and 8 of the '129 patent describe these two improvements.

[3] In the course of the ensuing investigation, all but six of the foreign companies—the private respondents in this case—entered into settlement agreements with Qume.

mined that the effect or tendency of respondents' unfair acts was to destroy or substantially injure an efficiently and economically operated domestic industry. Respondents petitioned for review of the ID.

The Commission elected to review portions of the ID, including the questions (1) whether petitioner's patent is invalid by virtue of anticipation within the meaning of 35 U.S.C. 102(g); and (2) whether the patent is invalid as obvious within the meaning of 35 U.S.C. (& Supp. III) 103. See 50 Fed. Reg. 15236 (1985). Upon consideration of the arguments and presentations made at the Commission's public hearing, the submissions filed by the parties, the transcript of the evidentiary hearing before the ALJ, and the exhibits accepted into evidence, the Commission determined that there was no violation of Section 337 (Pet. App. A8-A60). The Commission issued its written decision and notice terminating the investigation as to all remaining respondents (*ibid.*). See 50 Fed. Reg. 33862 (1985).[4]

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[4] Specifically, the Commission determined that Claim 8 of the '129 patent is invalid by virtue of anticipation as set forth in 35 U.S.C. 102(g), and that Claim 1 of the '129 patent is invalid as obvious within the meaning of 35 U.S.C. (& Supp. III) 103. Pet. App. A25-A35. The Commission also determined that Claim 8 is not invalid as obvious within the meaning of 35 U.S.C. (& Supp. III) 103. Pet. App. A34-A37. The Commission further found that, even if the '129 patent were valid, the devices manufactured by respondents Sharp and Triumph-Adler would not infringe Claim 8 of the patent, although the devices manufactured by Nakajima would infringe that claim. *Id.* at A37-A44. The Commission also made a number of other findings concerning the impact on the domestic industry that are not relevant here. *Id.* at A44-A47. Several members of the Commission expressed additional views. *Id.* at A61-A99.

3. The court of appeals affirmed, holding that the Commission's determination correctly applied the relevant law and was supported by substantial evidence in the record (Pet. App. A1-A5). With respect to the validity of Claim 1 of the '129 patent under 35 U.S.C. (& Supp. III) 103, the court of appeals found that the Commission had properly included within the scope of the relevant art those references which address the problems facing the inventor and, accordingly, had properly defined the person of ordinary skill in the art to include an individual with experience in the field of optical encoder and sensor design (Pet. App. A2). The court of appeals then concluded that the Commission did not err in finding that Claim 1 would have been obvious to the person of ordinary skill in the art, based upon the documentary and testimonial evidence of record (*id.* at A2-A3). The court of appeals noted that petitioner had misrepresented the record concerning the Commission's determination with respect to secondary considerations and that the Commission had properly determined that there was no evidence of a nexus between the commercial success of petitioner's printers and the invention's claimed improvements (*ibid.*).

The court of appeals also rejected (Pet. App. A4) petitioner's argument that no substantial evidence underlay the Commission's determination that Claim 8 is invalid as anticipated under 35 U.S.C. 102(g). The court of appeals determined that the record showed that the subject matter of Claim 8 had been conceived and reduced to practice more than one year before the filing date of the '129 patent, thus warranting a finding of anticipation (Pet. App. A4).[5]

[5] The court of appeals pointed out that the record revealed that there was testing, large scale production and commercial

Finally, the Court rejected as meritless petitioner's argument that the anticipatory prior art reference did not include all elements of Claim 8 (Pet. App. A5).[6]

ARGUMENT

The decision of the court of appeals is correct and does not conflict with any decision of this Court or of any other court of appeals. Accordingly, further review is not warranted.

1. Petitioner contends (Pet. 10-17) that the court of appeals failed to apply the appropriate standard of appellate review, set forth in *Universal Camera Corp.* v. *NLRB*, 340 U.S. 474 (1951), and failed to evaluate the entire record in reviewing the Commission's determination. Those contentions mischaracterize both the holding of the court of appeals and the determination of the Commission.

While the court of appeals' opinion does not directly cite *Universal Camera* or recite that the court has "considered the record as a whole," there is a lengthy footnote discussion of the standard of review that makes it clear that the court applied proper principles. The court of appeals correctly observed (Pet. App. A5 n.1) that appeals from Com-

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production of the subject matter of Claim 8 as early as 1972-1973, while the application for the '129 patent was filed on July 1, 1974 (Pet. App. A4-A5). That evidence included a number of documentary exhibits as well as the testimony of the co-inventor of the anticipatory invention (*id.* at A27 (citing exhibits and transcript)).

[6] In view of its affirmance of the invalidity of Claims 1 and 8, the court found it unnecessary to reach the issues concerning patent infringement, the domestic industry, and injury (Pet. App. A5).

mission determinations under Section 337 are properly reviewable under the substantial evidence standard as dictated by 5 U.S.C. 706 and 19 U.S.C. (Supp. III) 1337(c). The court explained that this standard requires that the factual findings of the Commission be supported by " 'such relevant evidence as a reasonable mind might accept as adequate to support a conclusion' " (Pet. App. A5 n.1, quoting *Consolidated Edison Co.* v. *NLRB*, 305 U.S. 197, 229 (1938).[7] The court of appeals also cited its own decision in *SSIH Equipment S.A.* v. *United States International Trade Commission*, 718 F.2d 365, 382 (Fed. Cir. 1983), which included an extensive discussion of *Universal Camera*. See Pet. App. A5 n.1. In that discussion, the court explained that the substantial evidence standard does not refer exclusively to the weight or credibility of one party's evidence, but also requires comparison of the Commission's conclusions to the full evidentiary record, including evidence that might contradict the Commission's findings. *SSIH Equipment S.A.*, 718 F.2d at 382 (citing *Universal Camera*, 340 U.S. at 488). Accordingly, petitioner's argument that the court of appeals failed to apply the appropriate standard of review is incorrect.[8]

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[7] The court of appeals also observed that it "is not so restricted with respect to the Commission's legal conclusions and will reverse those conclusions found to be in error" (Pet. App. A5, citing 5 U.S.C. 706; *American Hospital Supply Corp.* v. *Travenol Laboratories, Inc.*, 745 F.2d 1, 6 (Fed. Cir. 1984)).

[8] Furthermore, as this Court stated in *Universal Camera* (340 U.S. at 490-491):

> Our power to review the correctness of application of the present standard ought seldom to be called into

Petitioner's contention that the court of appeals did not in fact evaluate the entire record is also baseless. The court of appeals discussed the evidence of record, including that which weighed against the Commission's decision, in connection with the validity of both Claims 1 and 8. For example, the court of appeals considered petitioner's argument that the Commission had ignored evidence of secondary considerations that would have supported a finding of nonobviousness as to Claim 1 (Pet. App. A3).[9] The court of appeals observed that petitioner misrepresented the record on this point and concluded that

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> action. Whether on the record as a whole there is substantial evidence to support agency findings is a question which Congress has placed in the keeping of the Courts of Appeals. This Court will intervene only in what ought to be the rare instance when the standard appears to have been misapprehended or grossly misapplied.

Plainly, this is not such a case. As the court of appeals noted, the petitioner has asserted little more than that the Commission was wrong and the ALJ right (Pet. App. A5 n.1). Petitioner's repeated assertions that the Commission improperly overruled the ALJ (see, *e.g.*, Pet. 3) reflect a basic misunderstanding of the Commission's review procedure. Commission review is not an appellate proceeding analogous to a court of appeals review of a district court decision. Rather, it is a de novo proceeding, which may result in the ID being adopted, supplanted, modified or reinstated. Unless the ID is reinstated, it is *functus officio*. Accordingly, the proper inquiry in reviewing a Commission decision is whether the Commission's determinations are legally correct and supported by substantial evidence on the record as a whole, not whether the Commission properly reviewed the ALJ's ID.

[9] Such secondary considerations as commercial success, long felt but unsolved needs, and failure of others to achieve the same result may be relevant indicia of nonobviousness. See *Graham* v. *John Deere Co.*, 383 U.S. 1, 17-18 (1966).

the Commission had considered the evidence against a finding of nonobviousness and had evaluated it properly (*ibid.*).[10] Similarly, the court of appeals specifically addressed other documentary and testimonial evidence of record, including that which petitioner maintained detracted from the Commission's determination of invalidity (see *id.* at A3-A5). Thus, the court of appeals properly evaluated the whole record in affirming the Commission's determination.

2. Petitioner also contends that the court of appeals failed to "incorporate the 'clear and convincing' evidentiary standard in its review and hence failed to utilize the correct standard of appellate review" (Pet. 17-18). Petitioner's argument on this point is also meritless. The court of appeals' determination that the Commission applied the correct legal standards (Pet. App. A2) took into account the fact that

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[10] Petitioner inaccurately states that the Commission failed to articulate the reasons for rejecting the ALJ's findings, in particular those based upon credibility determinations (Pet. App. A15). The Commission expressly identified and corrected the legal errors in the ALJ's initial determination through its de novo review. See Pet. App. A26, A33-A35. The Commission did not, as petitioner contends (Pet. 13), reject the ALJ's findings based upon a contrary evaluation of testimonial evidence. Thus, petitioner's reliance on the court of appeals' past recognition of the special deference owed to a hearing examiner's credibility determinations (*ibid.*, citing *Jackson* v. *Veterans Administration*, 768 F.2d 1325, 1331 (Fed. Cir. 1985)) is misplaced. Petitioner's reliance on this Court's decision in *Dennison Mfg. Co.* v. *Panduit Corp.*, No. 85-1150 (Apr. 21, 1986) (per curiam), is also misplaced. In *Dennison*, this Court vacated and remanded a court of appeals decision that reversed, without adequate explanation, a district court's factual findings. Here, by contrast, the court of appeals applied the appropriate standard of review to affirm the determination of the Commission.

the Commission correctly accorded the patent a presumption of validity under 35 U.S.C. (& Supp. III) 282 and properly allocated the burden of proof. Pet. App. A25 & n.47. As the citation to *SSIH Equipment S.A.* indicates (Pet. App. A5 n.1), the court of appeals properly considered respondents' evidentiary burdens in reviewing petitioner's claims under the substantial evidence test. See *SSIH Equipment S.A.*, 718 F.2d at 383.

3. Finally, petitioner asserts that the court of appeals' unpublished decision will discourage use of the International Trade Commission procedures. This claim is, of course, meritless. The court of appeals' decision correctly applied established and noncontroversial legal principles to a particular dispute. This case presents no question warranting this Court's review.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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